

# Storm Funding Limited – In Administration

Joint Administrators' progress report for the period  
23 September 2009 to 22 March 2010

20 April 2010

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# Section 1: Purpose of the Joint Administrators' progress report

## Introduction

This is the third progress report by the Joint Administrators (the "Administrators") of Storm Funding Limited ("Storm" or the "Company").

Creditors should have received the Administrators' proposals (the "Proposals") dated 12 November 2008 which were approved at a meeting of creditors held on 27 November 2008. Creditors should also have received the Administrators' first and second progress reports dated 21 April 2009 and 22 October 2009 respectively.

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 22 March 2010.

## Objective of the Administration

The Administrators are pursuing the objective of achieving a better result for Storm's creditors as a whole than would be likely if Storm were wound up (without first being in Administration).

The specific aims of this Administration are to:

- Protect and manage the Company's portfolios of assets; and
- Realise these assets, including asset and mortgage backed securities, and other debtors on a managed basis.

## Creditors' Committee

A Creditors' Committee was not formed.

## Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are significant uncertainties regarding future net realisations.

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors.

Until there is more certainty regarding dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Administrators, please do so by completing and returning the attached statement of claim form.

## Administrators' remuneration

As there is no Creditors' Committee, the Administrators will shortly seek the approval of the general body of creditors to draw remuneration in respect of costs incurred in this Administration.

## Extension of the Administration

On the application of the Administrators, the High Court made an Order extending the period of the Administration to 30 November 2010.

As noted in this report, there are a number of material issues that remain outstanding, the resolution of which will materially affect the quantum and timing of any dividend to unsecured creditors. It is therefore likely that a further extension to the period of Administration will be required.

## Additional Administrator

DA Howell was appointed as an additional Administrator on 30 November 2009.

## Change of address

The Company has relocated from 25 Bank Street and all future correspondence should be addressed to The Administrators of Storm at Level 23, 25 Canada Square, London, E14 5LQ, United Kingdom.

## Future reports

The Administrators will next report to creditors in approximately six months time.

Signed:



D Y Schwarzmman  
Joint Administrator  
Storm Funding Limited

# Section 2: Joint Administrators' actions to date

## Business activities

Storm is a wholly owned subsidiary of Mable Commercial Funding Limited.

Storm principally held residential and commercial mortgage backed securities issued by special purpose vehicles and also provided financing across the Lehman Brothers group.

Storm utilised employees seconded from Lehman Brothers Limited and principally operated from the Lehman Group's former premises at 25 Bank Street, London.

## Progress to date

The Administrators have continued with the strategy in their Proposals as approved by creditors on 27 November 2008.

Below is a summary of progress made during the period 23 September 2009 to 22 March 2010.

## Repo'd securities

As stated in the previous progress reports dated 21 April 2009 and 22 October 2009 respectively, the majority of Storm's mortgage backed securities were repo'd to Lehman Brothers Bankhaus AG ("Bankhaus"). On 15 September 2008 Bankhaus became the subject of a moratorium to protect creditors, imposed by the German Financial Supervisory Authority.

The rights and obligations of Storm and Bankhaus in respect of these repo's are purportedly defined in a draft General Master Repo Agreement ("GMRA") dated 15 August 2008. As previously advised, the size and complexity of the task of valuing the securities in line with the GMRA is considerable. The Administrators continue to draw on expert advice to value the repo securities, which will enable the value of the relevant transactions between Storm and Bankhaus to be ascertained. The results of the valuation will have a significant impact on the level of funds available for distribution to the body of creditors and therefore considerable time is being taken to ensure that an accurate valuation is calculated.

## Non-repo'd securities

The Administrators continue to identify the type, number and location of each security held by Storm in order to enable them to evidence Storm's claim as a creditor of other Lehman insolvent entities. Since the last progress report, Storm has submitted a Trust Asset Claim against Lehman Brothers International (Europe) with a total value of US\$519m. To date Storm has not been advised of whether its claim has been reviewed, or the likely timing or quantum of the return of any assets in relation to this claim.

## Inter-company debtors

The Administrators continue to gather information to evidence Storm's claims against inter-company debtors as well as lodge claims against other insolvent Lehman entities in advance of any bar-dates imposed for the submission of claims. To evidence each claim requires significant detailed accounting work as they cover complex, large-value, international transactions.

Since the last progress report, Storm has submitted a claim against Lehman Brothers Holdings Inc in relation to Lehman Programs Securities with a total value of US\$17.8m. In addition, Storm has submitted a guarantee claim against Lehman Brothers Holdings Inc with a total value of US\$8,421m. To date Storm has not been advised of whether its claim has been reviewed or the likely timing or quantum of any distribution.

## Inter-company debtors – Dutch debtor

Since the last progress report, the Administrators have realised a further €7.7m from the controlled divestment of the assets of a Dutch debtor. Further realisations, the value of which are dependent on the success of the Dutch debtor in recovering assets from other parties, are anticipated in the second quarter of 2010.

# Section 2: Joint Administrators' actions to date

## Inter-company debtors – Project Eagle

As stated in the previous progress report dated 22 October 2009, Storm provided a loan to a Lehman group company, which was used to originate mortgage loans (the "Mortgage Assets"). These Mortgage Assets were pledged as security against the loan. The Mortgage Assets are being held and run-off within the Administration using a Lehman owned servicing platform, Capstone Mortgage Services Limited ("Capstone"). In addition to the Mortgage Assets, Storm also has a number of other inter-company receivables, the value of which is dependent upon Capstone continuing to service the underlying mortgage loans.

As previously advised, to ensure that the value of these inter-company receivables is preserved and the value of the Mortgage Assets maximised, the Administrators have worked closely with the management of Capstone to secure its ongoing viability, including agreeing to provide future working capital and supporting a restructuring initiative. The Capstone restructuring, which involves a change of ownership of Capstone from another Lehman Group entity to Storm, is in its final stages. The Administrators are currently awaiting FSA approval for the change of control of Capstone. It is anticipated that the Capstone restructuring will be completed very shortly.

In addition, as part of the restructuring, the Administrators are incorporating an Asset Management company of which Storm will be a corporate partner. The Asset Management company will provide strategic asset-management advice to Storm, Capstone and certain other Lehman entities that hold mortgage assets.

The Administrators have also worked closely with Capstone's management team in retaining and incentivising the Capstone team including supporting Capstone in its selection and employment of key executives.

Between 23 September 2009 and 22 March 2010, the Administrators have collected loan interest and principal sums totalling £6.6m in relation to the Mortgage Assets.

## Future strategy

The Administrators will continue to:

- Seek the return of Storm's assets held by other Lehman entities;
- Evidence and submit claims against other members of the Lehman Group for balances due to Storm;
- Finalise contractual arrangements between the Asset Management company and other asset holding group entities seeking asset management services;
- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with the view to future sales; and
- Realise assets, where possible.

# Section 3: Statutory and other information

<b>Court details for the Administration:</b>	High Court of Justice, Chancery Division, Companies Court - Court Case 8210 of 2008.
<b>Full name:</b>	Storm Funding Limited
<b>Trading name:</b>	Storm Funding Limited
<b>Registered number:</b>	2682306
<b>Registered address:</b>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom.
<b>Company directors:</b>	A Attia (resigned 12/01/09), D Gibb (resigned 17/07/09), PEJ Hansell (resigned 23/10/08), IM Jameson (resigned 17/07/09), AJ Rush (resigned 28/10/08) and PA Sherwood (resigned 31/10/08).
<b>Company secretary:</b>	P Dave (resigned 25/01/10), M Smith (resigned 25/01/10) and ESE Upton (resigned 25/01/10).
<b>Shareholdings held by the directors and secretary:</b>	None of the directors own shares in the Company.
<b>Date of the Administration appointment:</b>	23 September 2008.
<b>Administrators' names and addresses:</b>	DY Schwarzmann, MJA Jervis, AV Lomas, SA Pearson and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, United Kingdom.
<b>Appointer's name and address:</b>	The directors of the Company, whose address at appointment was 25 Bank Street, London, United Kingdom, E14 5LE.
<b>Objective being pursued by the Administrators:</b>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<b>Division of the Administrators' responsibilities:</b>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the persons for the time being holding that office.
<b>Details of any extensions for the initial period of appointment:</b>	The Court has granted an extension of the Administration to 30 November 2010.
<b>Proposed end of the Administration:</b>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<b>Estimated dividend for unsecured creditors:</b>	It is too early to estimate the likely dividend for unsecured creditors.
<b>Estimated values of the prescribed part and Storm's net property:</b>	There is no prescribed part in this matter.
<b>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</b>	Not applicable.
<b>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</b>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

# Section 4: Financial information

## Statement of Affairs

A copy of the Directors' Statement of Affairs ("SoA") as at 23 September 2008 is attached at Appendix A.

The SoA contains a list of creditors and shareholders, including their name, address and amount due together with a breakdown of the assets held by the Company as at 23 September 2008.

## Administrators' remuneration

By way of context, the manner in which Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the "Rules").

In accordance with the Proposals, as a Creditors' Committee was not formed it is now for creditors to agree the level of the Administrators' remuneration and Category 2 disbursements. Full details of the Administrators' remuneration will be provided to creditors shortly following this report.

The Administrators will only draw remuneration when appropriate approval has been given and when funds are available to do so.

## Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2010, and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

Significant receipts in the period covered by this report are:

- £6.6m in respect of principal and interest receipts; and
- €7.7m in respect of the repayment of a secured loan with a Dutch inter-company debtor.

Significant payments in the period covered by this report are:

- Payroll and employee costs of £0.88m; and
- Legal fees of £0.26m.

Total cash held as at 22 March 2010 was £60.9m.



# Section 5: Receipts and payments

	As at 22 March 2010		As at 22 March 2010 TOTAL GBP equivalent £	Movements 23 September 2009 to 22 March 2010 (GBP equivalent) £	As at 22 September 2009 (GBP equivalent) RESTATED at 22 March 2010 exchange rate £
	GBP (£) 000	EUR (€) 000	£ 000	£ 000	£ 000
<b>RECEIPT</b>					
Principal and interest	23,726	43,514	62,958	13,577	49,381
Coupon receipt	-	1,513	1,364	0	1,364
<b>Receipts Grand Totals</b>	<b>23,726</b>	<b>45,027</b>	<b>64,322</b>	<b>13,577</b>	<b>50,745</b>
<b>PAYMENT</b>					
Building and occupancy cost	452	-	452	0	452
Payroll and employee costs	1,648	-	1,648	879	769
Legal fees	1,312	-	1,312	256	1,056
Office holders' category 1 disbursements	2	-	2	0	2
Other professional fees	30	-	30	28	2
<b>Payments Grand Totals</b>	<b>3,444</b>	<b>-</b>	<b>3,444</b>	<b>1,163</b>	<b>2,281</b>
<b>NET POSITION</b>	<b>20,282</b>	<b>45,027</b>	<b>60,878</b>	<b>12,414</b>	<b>48,464</b>
<b>CASH BALANCES</b>					
HSBC	714	146	846		
Money markets	19,568	44,881	60,032		
<b>Total Cash</b>	<b>20,282</b>	<b>45,027</b>	<b>60,878</b>		

Exchange rates as at 22 September 2009:

EURO €1 : GBP 0.9034

Exchange rates as at 22 March 2010:

EURO €1 : GBP 0.9016

Amounts include VAT where applicable

As per previous report, exchange rate at 22 September 2009	
As at 22 September 2009 (GBP equivalent) £	As at 22 September 2009 (USD equivalent) Previously reported \$
000	000
49,445	80,964
1,367	2,237
<b>50,812</b>	<b>83,201</b>
452	740
769	1,260
1,056	1,729
2	3
2	3
<b>2,281</b>	<b>3,736</b>
<b>48,531</b>	<b>79,465</b>